

2007 City of Winnipeg

Pre-Budget Submission



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About the Canadian Taxpayers Federation

The Canadian Taxpayers Federation (CTF) is a federally incorporated, non-profit and non-partisan, advocacy organization dedicated to lower taxes, less waste and accountable government. The CTF was founded in Saskatchewan in 1990 when the Association of Saskatchewan Taxpayers and the Resolution One Association of Alberta joined forces to create a national taxpayers organization. Today, the CTF has over 72,000 supporters nation-wide.

The CTF maintains a federal office in Ottawa and offices in the five provincial capitals of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario. The CTF has a working partnership with the Montreal-based Quebec Taxpayers League. Provincial offices and the League conduct research and advocacy activities specific to their provinces in addition to acting as regional organizers of Canada-wide initiatives.

CTF offices field hundreds of media interviews each month, hold press conferences and issue regular news releases, commentaries and publications to advocate the common interest of taxpayers. The CTF's flagship publication, *The Taxpayer* magazine, is published six times a year. An issues and action update called *TaxAction* is produced each month. CTF offices also send out weekly *Let's Talk Taxes* commentaries to more than 800 media outlets and personalities nationally.

CTF representatives speak at functions, make presentations to government, meet with politicians, and organize petition drives, events and campaigns to mobilize citizens to effect public policy change.

All CTF staff and board directors are prohibited from holding a membership in any political party. The CTF is independent of any institutional affiliations. Contributions to the CTF are not tax deductible.

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INTRODUCTION

Winnipeggers have consistently maintained their priorities are fixing crumbling infrastructure, cracking down on crime and value for civic services. The Canadian Taxpayers Federation (CTF) commends the mayor and members of the Executive Policy Committee for their thoughtful debate on the city's budget.

It has become increasingly important that residents of Winnipeg be afforded the opportunity to engage their councillors on the very important issues that affect their daily lives. The CTF is also pleased with the new budget process which includes service-based budgeting, providing a clearer picture of where tax dollars are being spent.

City Council has taken some steps in the right direction to ensure Winnipeg's future competitiveness: frozen property taxes, reduced business tax, streamlining bureaucracy, continued commitment to reducing debt servicing costs and no new borrowing for capital programs. All of these decisions have helped reduce the overall debt, and increase revenue.

With the election of a new council, the City of Winnipeg has the opportunity to put the old, tired arguments of new taxing authority, new deals and growing the size of government aside in favor an actual strategy, built around smaller government and a clear sense of priorities.

BUSINESS TAX

During the 2006 municipal election, Mayor Katz made a commitment to live up to the signed pledge he had made to the CTF in 2004 to reduce, and eventually eliminate the city's business tax. The CTF is pleased to see in the preliminary operating budget, a 2-point reduction to the 9.75 per cent rate putting *all* Winnipeg businesses on a level playing field in terms of the taxes they pay.

The CTF's criticism, of no long-term strategy to eliminate the business tax has, for now, been quelled by the creation of an Economic Opportunities Commission responsible for devising that strategy. As a member of the Commission, the CTF has consistently maintained the business tax should be eliminated within 3 to 5 years.

The longer Winnipeg waits to eliminate this job killing tax, the more we lose opportunities for job creation. The profit insensitivity of the business tax gives one more reason for businesses considering either relocation or starting up in Winnipeg, to go to other cities like Brandon, Saskatoon or Regina. None of these cities have a business tax.

Recommendation 1: According to the recommendations put forward by the Economic Opportunities Commission, implement and adhere to a long-term strategy to eliminate the business tax.

REDUCE SPENDING ON SALARIES & BONUSES

According to the Canadian Federation of Independent Business, the City of Winnipeg is still paying 21 percent more for comparable skills, management and labour compared to the private sector. A wage premium second only to Quebec City. This premium is hardly necessary given the benefits and job security offered by City Hall. To make matters worse, city salaries are often significantly higher than for comparable positions in the Manitoba provincial government, even though both governments are in the same job market and based in the same city. Winnipeg's rich and generous pay packages are effectively the highest in the Manitoba market.

The city is in negotiations with several of its unions this year, including the Winnipeg Police Association, United Firefighters, and Canadian Union of Public Employees. Collectively, these unions represent most of the city's workforce. Has the mayor or council stated any public objectives for these negotiations? No. Yet showing more restraint than predecessors Mayor Norrie or Mayor Murray on just one of these agreements would save taxpayers considerably. Many of these taxpayers are making much less yet working just as hard to pay for those who do.

In the tax-supported operating budget, the city's salary budget has grown by an average of 3.2% a year from 1999-2006. If the city had been able to do nothing more than hold its rising salary bill to keep up with the Average Weekly Earnings, then it would have \$21 million more in 2007, or enough to wipe out nearly a third of the business tax and still have money left over for roads or residential property tax relief.

The CTF is pleased the bonus structure has been eliminated at city hall.

Recommendation 2: Keep public union salaries negotiations in line with increases in Average Weekly Earnings for a potential savings of nearly \$21 million.

PROPERTY TAXES

The CTF has consistently maintained the principle that tax cuts are not a spending item. With lower interest rates and a competitive real-estate market, Winnipeg's assessment base is growing along with its revenues.

According to the preliminary operating budget, the city will enjoy an additional \$14.2 million in property tax revenue in the next fiscal year. Clearly, the impact of past property tax cuts have not had a devastating affect on revenues. In fact, it has been quite the contrary. This year the city of Winnipeg will have more property tax revenue than the past two fiscal years.

During the three-year period where property tax rates were brought down by nearly 6 per cent, revenues increased. City Hall needs to build on the progress already made. The strategy of another tax freeze does little to help homeowners of Winnipeg, considering another round of school tax increases are expected.

Recommendation 3: To ensure Winnipeg's competitiveness, the CTF recommends a further 2 per cent reduction in property taxes. Tax reductions can be realized through administrative savings or a freeze on specific expenditures in non-priority areas.

ROADS AND INFRASTRUCTURE

Winnipeg will receive over \$20 million in federal gas tax money for 2006 and the same amount for 2007, and \$5.5 million “C-66” transit money from Ottawa as a result of the provincial government’s budget amendments in 2005.

With special interests lobbying for bus rapid transit (BRT), sports facilities, or theatre bailouts, many are wondering where these dollars will go. City Hall proved to be all talk and no action last year when it came to focusing on the city’s biggest priority: roads.

While some facilities do need repairs, Winnipeg already has a massive network of community centres. Winnipeg has solid ridership on a bus service in need of some basic improvements. A massive BRT boondoggle is not as high a priority as heated shelters and cleaner buses. Winnipeg has so many theatres they keep putting each other out of business, and bailing them out or fixing them up will only perpetuate the problem.

In this year’s budget, City Council needs to commit gas tax and C-66 dollars in a long term plan that focuses all of those monies on public enemy #1: broken roads. When new savings appear, then it may be time to consider other issues.

Recommendation 4: Commit gas tax and C-66 dollars in a long-term plan that focuses all of those monies on road repair.

PRIORITY SPENDING AND SAVINGS

Fire and Paramedic Services

If City Hall wants to save money, it should complete or pick-up unfinished business. Case in point, the Fire Paramedic Service.

Officially amalgamated almost a decade ago, the merger is still only half-way complete, as successive fire chiefs, chief administrative officers, mayors and councilors have balked whenever it has come time to 'close the deal.'

The amalgamation was originally designed to address three costly trends. First, demand for paramedic service was rising. Second, demand for fire protection was plateauing with no change in how service was delivered. Third, both services spent a fortune sending two or more vehicles to emergencies when one vehicle would do because skill sets and dispatching was not properly coordinated. These problems will all remain as long as the merger is incomplete. The goal: to create a safer, more efficient and less costly service.

Since the Fire Paramedic Service is the third costliest item on the city's Operating Budget after Public Works and the Police Service, it's high time City Hall showed that it's not enough to propose a worthy reform: one has to have the will to see it through.

Recommendation 5: Complete amalgamation of Winnipeg's Fire and Paramedic Services.

Alternative Service Delivery and Public-Private Partnerships

The alternative services delivery (ASD) committee is city council's best hope for short-term cost control. Although it is only an ad-hoc committee, it is also the only vehicle at City Hall that is by definition designed to enable positive change. Just two years ago, the committee became the most valuable cost-savings vehicle on council, successfully tendering out garbage service in the south end (savings: \$3 million in a full year) and successfully launching the sale of the city's gravel operation.

Neither of these steps would have happened without the support of the mayor and Executive Policy Committee. But as important, the work of moving forward was delegated to this ad hoc committee which had the will to push these initiatives forward onto council's agenda.

For years, City Hall has chipped around the edges, discussing alternative service delivery opportunities but not taking any action. The ASD committee has a unique opportunity to look at contracting out services, while at the same time, establishing what the city's core services are.

It is time to get the ASD committee working on new projects so that its success in 2005 does not become a one-time success. To be sure, some initiatives might not pan out. But remember, it took decades to complete the citywide tendering of all garbage pickup. The point: get the committee started on other 'alternatives' if we want to see more positive results.

This also rings true for Public-Private Partnerships (P3s). The mayor made a commitment during the civic election to have major capital projects put forward as P3s. The CTF welcomed news from the City of Winnipeg's Capital Budget that most of the major infrastructure upgrades will be done through P3s, but cautioned all projects must be transparent for public accountability.

P3s mean taxpayers aren't saddled with major costs up front and will see the private contractor build, maintain or run a project in exchange for an annual fee. P3s are planned for three new police stations, upgrading the Disraeli Bridge and expanding McGillivray Boulevard. What is unique about a P3 contract is that it has some form of financial and quality assurance to protect taxpayers. For example the private contractor, not taxpayers are responsible for the all-too-familiar plea of "cost-overruns." This model is increasingly gaining currency as international success demonstrates.

To ensure taxpayers are getting the best value for their money, the CTF recommends when the City of Winnipeg enters into a P3 arrangement, the private contractor is told the contract will be subject to public disclosure. Under Manitoba's Freedom of Information and Protection of Privacy Act (FIPPA), third parties are protected under a confidentiality clause. This has the potential of undermining transparency and accountability when it comes spending taxpayers' money. Nevertheless, this does not prevent the city from requiring a full disclosure clause in each of these contracts.

Recommendation 6: The city continue to expand the Alternative Service Delivery Model and establish what the city's core services are.

Recommendation 7: The CTF recommends when the City of Winnipeg enters into a P3 arrangement, a full disclosure clause is included in the contract to ensure transparency and accountability.

Duplication and Overlap

City councillors need to be reminded that they are not the provincial government. Councillors often complain that the provincial government does not transfer enough revenue to the city. This is what experts in intergovernmental relations call the “fiscal imbalance.” But these criticisms are hardly credible when the city is taking on so many provincial responsibilities such as funding for low-income housing, arts funding and even social services. Moreover, it’s the same taxpayer, just a different pocket.

The mayor’s own Red Tape Commission noted that City Hall is often the first line of response to public pressure, and the result is a hodge podge of overlapping laws and services. In some cases, the fault is the provincial government’s, as services have been downloaded, or the province has refused to answer city proposals to merge services (like property tax assessment). But in other cases, like arts funding and housing, the city is eager to invade the province’s jurisdiction; the city is projecting to spend \$1 million in this budget year.

Receiving grants from the province to save money might be one route to restore “fiscal balance,” but another simpler route would be to stop spending money on provincial priorities and instead spend them on city responsibilities.

Recommendation 8: Avoid overlap by getting out of activities that are the responsibility of other levels of government including arts funding, affordable housing and social services. This can be done in conjunction with the ASD committee establishing what core civic services are.

Budgeting by improvisation

Stop improvising temporary savings when they could be permanent savings. The last fiscal year was just the latest in a serious of “deficit emergencies” faced by the city over the last decade, in which mid-year projections showed an impending deficit unless corrective measure were taken. Savings were found through restraints on discretionary spending and resulted in a balanced budget. Meanwhile, much of what the city saves in the budget year comes from “vacancy management,” where positions that come open owing to absences, retirements or staff departures stay open longer than they normally would to save in-year dollars.

Instead of budgeting by improvisation, the city needs to do is take the idea of financial planning seriously. If a staff position is so unnecessary that it does not impact on service to leave it unfilled for six months, it might be better to

ask if the “vacancy” should be a deletion. If an in-year cost can be saved in an emergency, then could it instead be saved permanently?

City council is there to set policy. It should set clear targets, like how many staff it expects to need in 2010, and what shape its roads must be in, and how low its taxes must be in order to be competitive. With broad overall goals, city budgeters will be forced to prioritize instead of improvise - a change in habits that can only save money in the long term. Winnipeg has proven that it can do this through its careful planning for debt reduction and “cash-to-capital” program, which has reduced the debt. If it can be accomplished for debt reduction, it can just as easily be done for operations.

Recommendation 9: Council should set measurable targets for staffing levels, road conditions and taxation levels until 2010. Cost cutting measures should be made permanent.

ASSESSMENT

At the big-ticket price of \$12 million annually, Winnipeg's Assessment Department costs almost twice as much as the city's 2006 budget for regional road repair. Last year, city hall was caught off guard yet again by massive shifts in business tax assessments, and the mayor scrambled to find a way to avoid massive assessment-based increases for businesses which were expecting to pay less as a result of the his pledge to reduce and eliminate the tax.

The free pass for assessment creep in Winnipeg is over. The city cannot afford any more surprises when it comes to tax assessment. Part of the problem is market value assessment – a system the CTF has long criticized as inefficient, unfair and unnecessarily complicated. But part of the problem is also an assessment service that sees taxpayers as adversaries, not customers. In the long term, the city and the province must explore other methods of levying tax – provided those alternatives will save taxpayer dollars rather than create new cash grabs.

But taxpayers deserve more than just a better system. They also deserve better service. If the province will not accept City Hall's recommendation to merge with the provincial assessment department, then City Hall should consider doing what major Canadian cities like Ottawa are doing in the wake of their own market value assessment problems. Ottawa recently passed a resolution to subcontract assessment to a competitor for MPAC (the Ontario government's Municipal Property Assessment Corporation), and it is high time Winnipeg did the same.

Recommendation 10: Consider merging the city's assessment department with the province's or sub-contracting out assessment with the goal to improve services and save money.

SPECIAL OPERATING AGENCIES

The city should resist the temptation of creating more Special Operating Agencies (SOA).

In the 1990s, the CTF lobbied City Hall to make its services more efficient by exploring different models of service delivery including special operating agencies, contracting, and allowing more services to be delivered by community groups or organizations.

Since then, with obvious bureaucratic motivations, City Hall has grasped at the easiest of the three – special operating agencies, or SOAs - with often disastrous results.

The good news: a well-managed SOA is a city department that works like a business, with managers given broad power to purchase services, shuffle staff or find efficiencies at their discretion, provided they achieve desired service and budget targets. The bad news: discretion is worthless if no one is willing to monitor progress or hold managers to account for their performance. Fortunately, council acted on one of these disasters by selling it - Glacial Sand and Gravel, the city's gravel pit.

Why did it happen? Why is the Golf Services SOA underperforming, and why are city parking lots now seeing fresh new payment machines and new "Parking Agency" signs when roads and sewers are still falling apart? It could be because the SOA concept is being misused. SOAs are meant to be a middle ground between private and public management for certain services, not a new form of crown corporation for city managers to hide behind.

Recommendation 11: Do not create any more Special Operating Agencies, in lieu of this, continue to expand the ASD model (see Rec. 6.)

Final Thoughts

The CTF is concerned with the level of spending the City of Winnipeg is embarking upon. There appears to be a culture of how much more can we the city squeeze out of other levels of government. Increasing spending in non-core areas or areas of provincial responsibility is a habit that council needs to stop.

The CTF was encouraged by the mayor's State of the City address where he spoke about contracting out services to the private sector, it is now time to put those words into action.

Thank you.